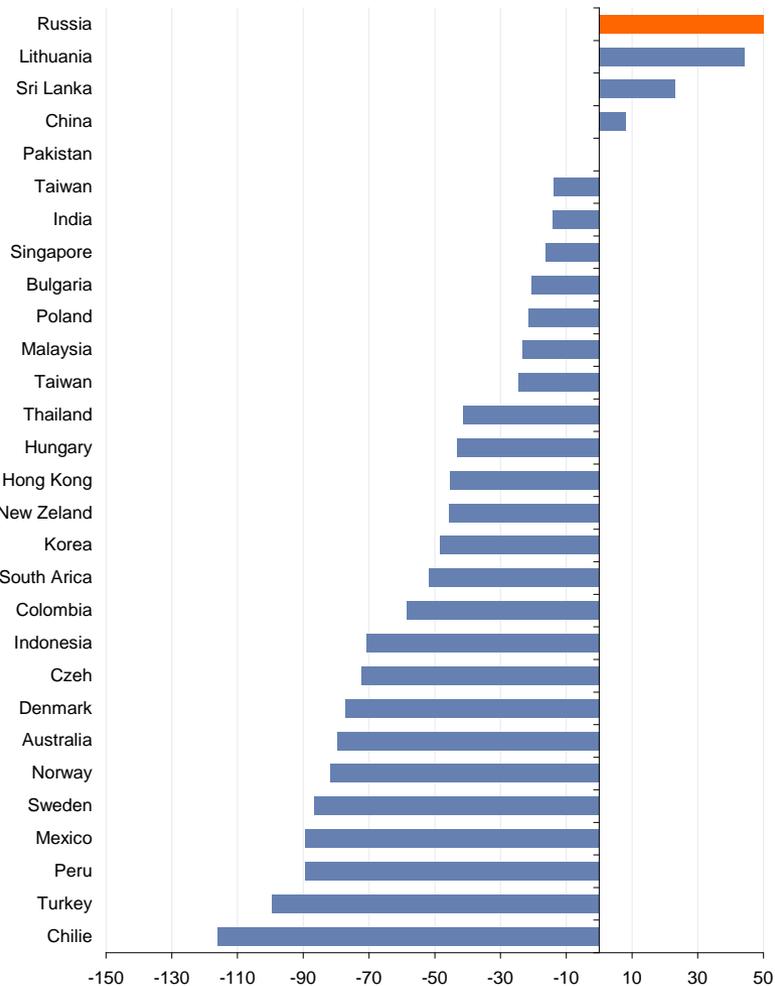


Russian local debt

[Opportunities & Risks]

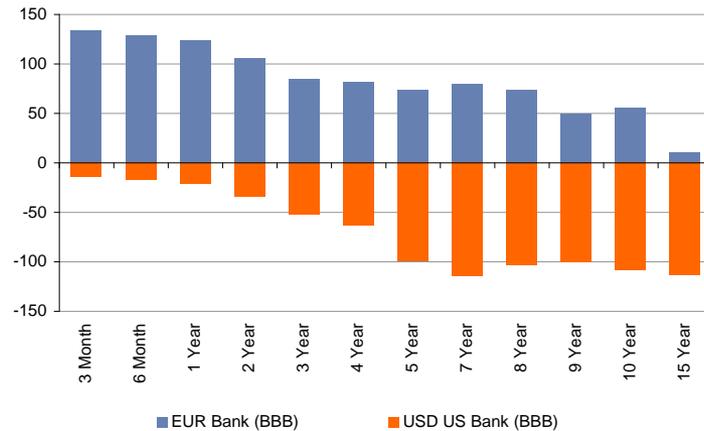
5Y bond yield dynamics: global context

Russia's local debt is the worst performer since the end of July'2011, bp

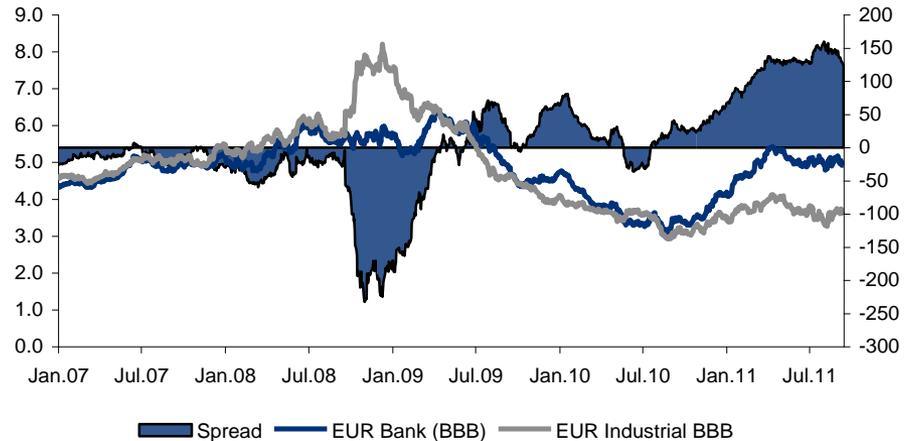


Source: Bloomberg, ING estimates

US vs. European BBB-rated banks: YTD



EUR BBB-rated banks vs. BBB-rated industrials



Key risks: debt market aspect

Russia's specific risks:

- Commodities-oriented.
- Weak legal framework.
- Reforms: changing rules, delayed schedules: electric utilities, telecoms
- Monopolies regulation is weak: oil & gas, banks
- Corporate public debt: less diversification: 50% ~ government banks & corporates, de-facto monopolised RUB primary market.
- Market infrastructure is also weak.

Key risks: debt market aspect

Corporates' risk:

- ❑ RUB bonds de-facto subordinated to bank loans & Eurobonds.
- ❑ Vicious circle of using «open windows»
- ❑ Payment discipline may deteriorate
- ❑ Reaction delayed, too optimistic view, risk management has lots of room to improve
- ❑ Reforms: changing rules, delayed schedules: electric utilities, telecoms
- ❑ Volatile transparency, poorly developed investor communication.
- ❑ Recovery rate can refer to bank with sufficient holdings, not for small holders.
- ❑ State corporates: potential recovery can reach 100% but social and economic meaning can spur government to protect domestic business using lack of legislation in the event of default.

Withstanding headwinds (opportunities):

Regulators:

- ❑ **Government:** highly possible to repeat 2008-2009 government support scenario across all sectors, socially important: Unemployment can be kept under control.
- ❑ **Central Bank & financial authorities passed the 2008 exam** and are ready to provide support to the banking system. The CBR can inject ~3.0 trn RUB in momentum.

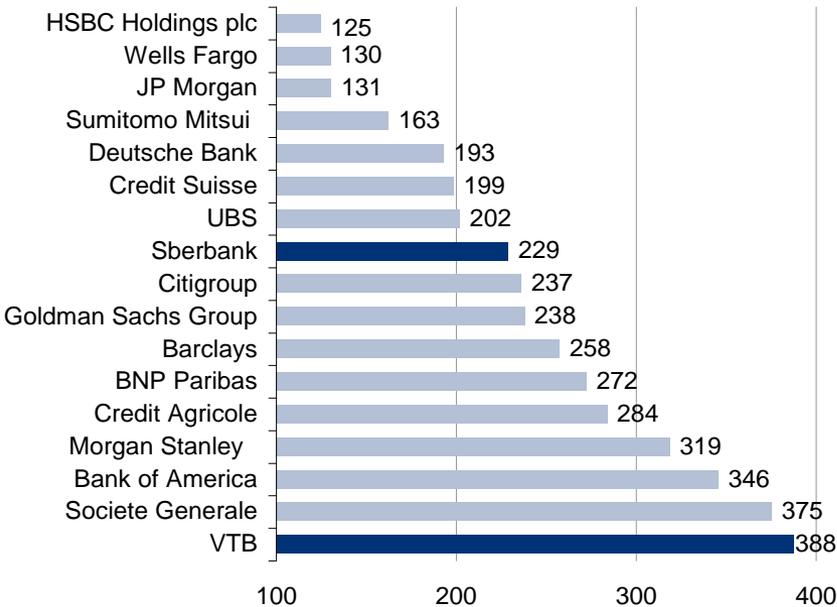
Banking system remains strong despite the recent rise in risk, and the probability of systemic support is close to 100%.

New President will bring more opportunities

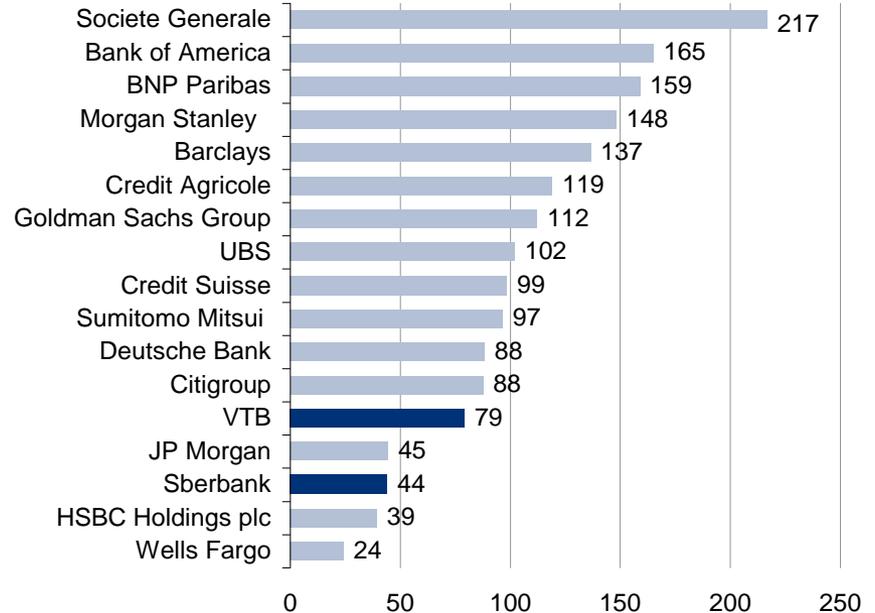
- ❑ International Financial Center.
- ❑ Privatization of government corporates.

Russian banks: well recognized risk

Global bank CDS, bp



Global bank CDS top movers YTD, bp



Russian government banks' CDS demonstrated strong resilience amid global turmoil

- ❑ Government support of VTB in “Bank of Moscow’s gate” helped to withstand global banking risk aversion.
- ❑ Sberbank’s CDS are being traded at a quasi-confident levels far less than most European and global banks.
- ❑ VTB & Sberbank’s CDS increased far less than most global banks.

Withstanding headwinds (opportunities):

Corporates in general are better prepared for a crisis:

- ❑ **Share of collateralized/ covenanted debt** generally has decreased.
- ❑ Debt maturity has increased, but there is no strict criteria.
- ❑ **3rd tier weak corporates vanished:** captured by the banks/strong credit names or bankrupted.
- ❑ **FX exposure** has been generally hedged.
- ❑ **Management** has successfully studied anti-crisis programs.
- ❑ Long-term international cooperation or even international expansion across all sectors.
- ❑ Shareholders' leverage not significant, less than in 2008.
- ❑ Government corporates have room and the ability to inflate leverage.

Privatisation snapshot

	Sale plans	Current stake
Rosneft	15%-1	75.16%
VTB Group	10%	75.50%
Sberbank	7.58%	57.60%
Sovocomflot	25%	79.10%
Federal Grid Company	4.11%	57.90%
RusHydro - 7.97%	7.97%	100%
United Grain Co	100%	100%
RosAgroLeasing	50% - 1 share	99.90%

Latest developments:

Expected budget income from privatization:

- RUB300.0 bn in 2012
- RUB380.0 bn in 2013
- RUB475.0 bn in 2014

Opportunities

Growth of efficiency

- State companies will try to be more attractive to investors
- Management team will be enhanced
- Management will improve its own efficiency
- Transparency will increase
- Corporates can become more predictable

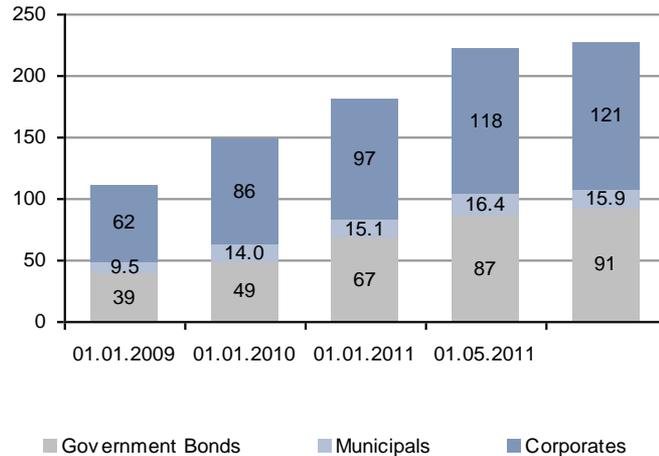
Overall improvement of investment climate

Risks/ Threats

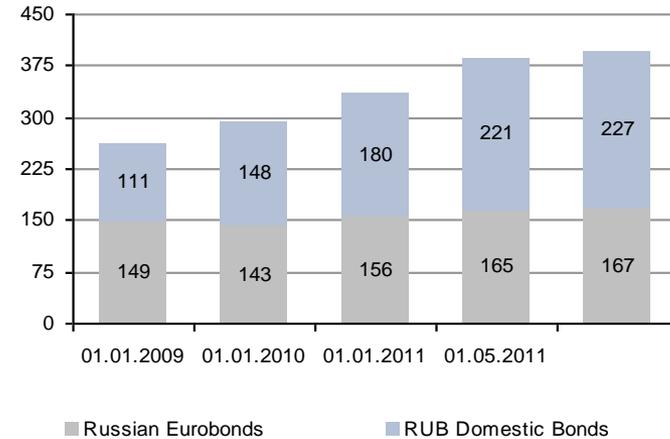
- Too aggressive plans on a weak market
- Less support from the government
- Loosening of government control
- Execution risks exist, delays in the privatization process
- Negative impact on private IPOs

Russian domestic debt market: snapshot

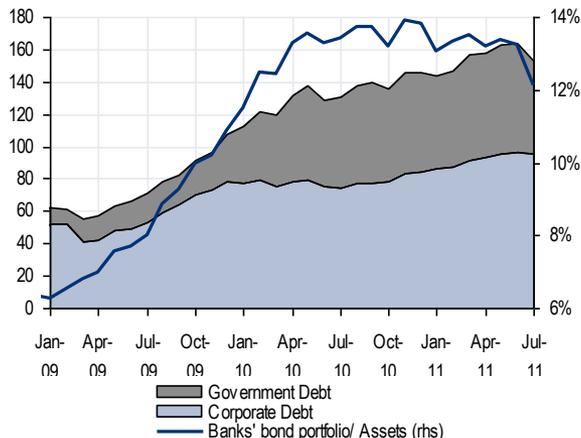
RUB Debt segment breakdown, US\$ bn



Domestic debt vs. Eurobonds, US\$ bn



Russian banks' bond portfolio, US\$ bn



MICEX Statistics:

- ❑ Size of Fixed Income market exceeds US\$227 bn or approx. 14% of GDP.
- ❑ Total number of corporate issues exceeds 770, with more than 360 issuers.
- ❑ Total corporate and municipal bonds outstanding is more than ~ US\$137 bln.
- ❑ Government & OBR bonds – more than US\$91 bn.
- ❑ Domestic debt has already outpaced Eurobonds by size.

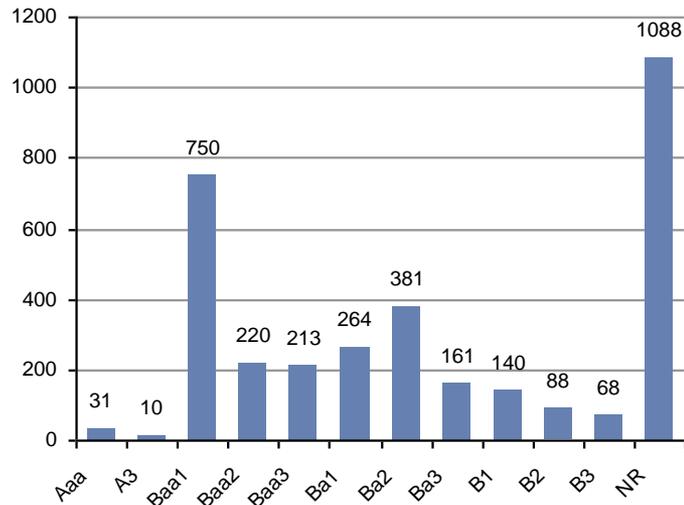
Russian banks* – key Russian debt holders:

- ❑ 58% of total government RUB debt & 41% of RUB corporate debt.
- ❑ 44% of total RUB and non-RUB gov debt & 36% of total RUB and non-RUB corporate debt.

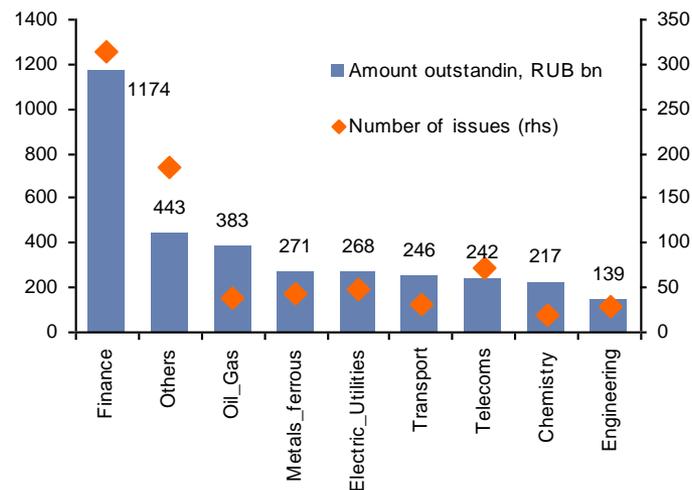
*without VEB

RUB Corporate Debt: quality debt persists

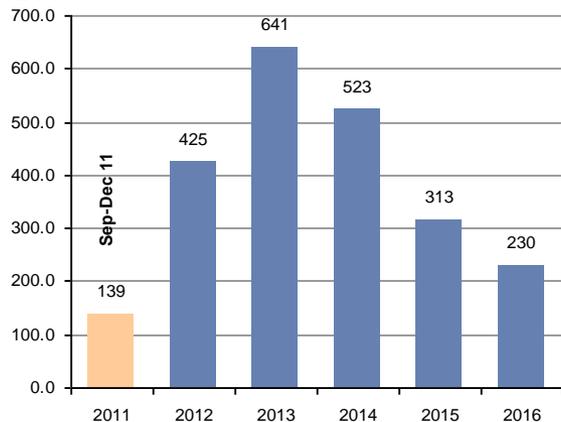
Ratings breakdown



Sector breakdown



Maturity breakdown



❑ **Ratings:** Two poles of highly and non-rated debt, rising «middle-class» BB-rated debt

❑ **Maturity:** Average maturity: 2-3 years

❑ **Key sectors represented:** Banks, Oil & Gas, Metals, Utilities, Transport, Telecoms & Chemicals

Top corporate names: mostly BBB-rated

Russian top RUB bond issuers by amt outstanding

Issuer	RUB bn	# of issues	Sector	M / S / F
Russian Railways	195	14	Transport	Baa1/BBB/BBB
Transneft	135	3	Oil_Gas	Baa1/BBB/—
Russian Agriculture Bank	105	15	Finance	Baa1/—/BBB
AHML	99.6	17	Finance	Baa1/BBB/—
Federal Grid Co (FSK EES)	86	9	Electric_Utilities	Baa2/BBB/—
MTS	85.0	10	Telecoms	Ba2/BB/BB+
Gazprombank	75	6	Finance	Baa3/BB+/—
Gazprom neft	68	7	Oil_Gas	Baa3/BBB/—
Mechel	65	13	Metals_ferrous	B1/—/—
AFK Sistema	64.5	4	Telecoms	Ba3/BB/BB—
Bashneft	50	3	Oil_Gas	
VTB	50	5	Finance	Baa1/BBB/BBB
EvrazHolding	50	6	Metals_ferrous	
Uralcali	50	1	Chemistry	
LUKOIL	49	9	Oil_Gas	Baa2/BBB—/BBB—
VTB24	45	5	Finance	Baa1/Withdrawn/BBE
VTB-Leasing Finance	43	7	Finance	—/BBB/—
MMK	43	7	Metals_ferrous	Ba3/Withdrawn/BB+
VEB	40	3	Finance	Baa1/BBB/BBB
Vimpelcom	40	4	Telecoms	
Rosnano	33	3	Others	—/BB+/—
EBRD	30.5	7	Finance	Aaa/AAA/AAA
Rostelecom	30.0420481	46	Telecoms	—/BB+/—
RUSAL	30	2	Metals_non_ferrous	
Severstal	30	3	Metals_ferrous	Ba2/BB/BB—
ALROSA	26	4	Mining	Ba3/BB—/BB—
Total	1618	213		
% of total amt	48%	27%		

Registered but has not placed

Issuer	RUB bn	# of issues	Sector	M / S / F
Gazprom	300	28	Oil_Gas	Baa1/BBB/BBB
Vnesheconombank	150	9	Finance	Baa1/BBB/BBB
Transneft	119	7	Oil_Gas	Baa1/BBB/—
Inter RAO EES	100	16	Electric_Utilities	—/—/—
Federal Grid Co	95	7	Electric_Utilities	Baa2/BBB/—
RZD	85	7	Transport	Baa1/BBB/BBB
Vimpelcom	60	5	Telecoms	Ba3/BB/—
LUKOIL	50	10	Oil_Gas	Baa2/BBB—/BBB—
Raiffeisenbank	47	6	Finance	Baa3/BBB/BBB+
Tatneft	45	9	Oil_Gas	Ba2/Withdrawn/BB
Enel OGC-5	45	15	Electric_Utilities	Ba3/—/—
AHML	44	3	Finance	Baa1/BBB/—
MMK	40	8	Metals_ferrous	Ba3/Withdrawn/BB+
Promsvyazbank	39	7	Finance	Ba2/Withdrawn/BB—
Norilsk Nickel	35	3	Metals_non_ferrous	Baa2/BBB—/BBB—
Mechel	35	12	Metals_ferrous	B1/—/—
Russian Agricultural Bank	35	5	Finance	Baa1/—/BBB
Uralkhim-Finance	31	7	Chemistry	—/—/—
VTB	30	4	Finance	Baa1/BBB/BBB
Gazprom Capital	30	3	Oil_Gas	—/—/—
Gazprom neft	30	5	Oil_Gas	Baa3/BBB—/—
Gazprombank	30	3	Finance	Baa3/BB+/—
X5 Finance	30	6	Retail	—/Withdrawn/—
Megafon Finance	30	3	Finance	Baa3/BB+/—
ROSBANK	30	4	Finance	Baa2/BB+/BBB+
RUSAL Bratsk	30	4	Metals_non_ferrous	—/—/—
Total	1595	196		
% of total amt registered	67%	42%		

Ideas: defensive, strong & predictable risk

Russia's sovereign ratings have been affirmed by Fitch (BBB, positive outlook) & S&P (BBB, stable outlook), 2 implications:

- Positive action in the current market & historical context.
- Stable ratings for government-supported and related corporates.

Opportunities

1) State corporates looks safer in the context of the deteriorated confidence:

Gazprom, Sberbank, VTB, Federal Grid Co, Russian Railways, Rostelecom issues, etc.

2) State corporates from privatized list are looking for long-term continuing business:

Probability of dishonest behavior is low, but legal structure of each bond issue should be thoroughly considered (issuer, borrower, guarantor, put/call, potential recovery).

Ideas: defensive, strong & predictable risk

We prefer: State corporates/ strong BB-rated local names / well predictable HY names

- ❑ AHML, VEB, VEB-Leasing, Russian Railways, Gazprom, Federal Grid Co, RysHydro, Aeroflot, Alrosa.
- ❑ Government and retail banks (Sberbank, VTB & HCF, BRS).
- ❑ Strong credits on the Eurobond market: Lukoil, Vimpelcom, Eurochem
- ❑ Selected trades on the RUB local debt: Vimpelcom, Eurasia Drilling, X5, Magnit, RUSAL
- ❑ Predictable HY names: Alliance Oil, Tinkoff Credit Systems Bank.

Top corporate names: mostly BBB-rated

Thank you for attention!